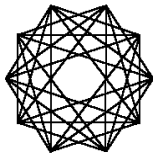


**Policy
Reports
on
Targeted
Social
Assistance
in Ukraine**

**No. 30
October 1998**



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HOW UKRAINE SHOULD TARGET SOCIAL ASSISTANCE

CONCLUSIONS

The Government of Ukraine is in the process of restructuring its social assistance programs. Effective targeting is necessary because Ukraine lacks the money in the State Budget to assist all families who would usually be considered poor. This report describes alternative mechanisms for targeting this assistance to the poorest and most needy families. It is intended as a companion report to “Poverty Among Families receiving Targeted Social Assistance.”

At present, eligibility for targeted social assistance is not linked to any standard definition of poverty, the poverty level, or income. Different terms are used in the Constitution of Ukraine, in laws setting up social assistance programs, and in many other normative acts related to poverty and social assistance. The result is the inability of policymakers to identify who is poor and the inability to create standard procedures for targeting assistance.

The basis for a unified definition of poverty should be the “minimum subsistence level”. But the methodology for calculating this subsistence level should allow for variations in the costs of purchasing goods and services among different regions and for differences between families living in urban and rural areas. The minimum subsistence level should also include methodology for allowing for differences in family size and composition.

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1. INTRODUCTION

1.1 THE NEED TO DEFINE WHO IS POOR IN UKRAINE

The incomplete and imperfect economic transition in Ukraine is creating real hardship for many families. Single pensioners must survive with average benefits barely 70 percent of the poverty level. Single mothers must try to feed families with childcare allowance payments that – even with recently enacted supplements – may be below one-tenth of the official per capita poverty level. Low benefits provide little protection for people and families at a time when Ukraine is suffering from a wrenching economic transition. Between 1990 and the end of 1997, real measured Gross Domestic Product had fallen by one half, manufacturing output by 57 percent, agricultural output by 60 percent, and the number of employees on unpaid leave or on involuntary part-time work had grown to one quarter of the workforce. Wages and benefits were, on average, more than two months in arrears. In some communities, some employees had not been paid for nearly one year. While the gray economy provides additional income for some Ukrainians, opportunities are relatively limited and not distributed evenly throughout the country.

Per capita income of Ukrainians today, as reported to GOU statistical agencies, is at about 12 percent of the level in the USA, 20 percent of the average for the 15-member average for the European Union, 40 percent of the level in neighboring Poland, and even below the measured levels for China, Sri Lanka, and Papua-New Guinea.¹ Comparison of expenditures on food confirms the low level of real incomes in Ukraine relative to European countries. In Ukraine 56 percent of the gross income of urban families and 66 percent of the income of rural families is spent on food. The average share of household income spent on food in the 15 European Union member countries is only 14.8 percent, in Poland, 29.9 percent, in Slovakia, 25.8 percent, and in Rumania, 48.5 percent.²

Not surprisingly, economic hardship has become the major focus of political debate in Ukraine. Opponents of reform have argued that the government has failed to provide adequately for the social protection needs of the population. In April 1995, the Supreme Rada dismissed the entire government because it had failed to protect people from adverse economic circumstances.

Ukraine needs a straightforward system for defining who should be eligible for targeted social assistance. Today, there are several different definitions of who should be eligible described in the Constitution, in laws setting up social assistance programs, and in other normative acts linked to issues such as the poverty level, and other issues. The Constitution, for example, ensures that all Ukrainians will be guaranteed a “Minimum Subsistence Level” – but this term has not yet been defined by law. The poverty level is defined in terms of a minimum consumption level – a combination of goods and services required to survive at a low standard of living. Nevertheless, it is not legally linked to any targeted assistance program. Social assistance programs, on the other hand, have developed their own eligibility standards without reference to any poverty standards. The housing subsidy program defines eligibility in terms of monthly payments for housing and

¹ See “UN Statistical Commission, New York, 1997, p. 141, and Economic Commission for Europe, Geneva, 1997.

² See “International Comparisons of Gross Domestic Product in Europe,” OECD, Geneva, various years.

communal services exceeding 20% of household income.³ Targeted childcare assistance is available to families with per capita monthly incomes below 37 Hrn. Some social assistance programs are based on the economic circumstances of households (the housing subsidy program), some on the circumstances of families (targeted childcare assistance), and some on individual circumstances (funeral allowances, social pensions, and privileges).

With so many different standards, it is impossible to create a unified system of providing targeted social assistance to needy Ukrainians. Without such a unified system, many families and households fail to receive all the assistance they need. At the same time, with many different systems for establishing eligibility, the administrative system is cumbersome. This is a burden to people in need of targeted assistance, who must visit many different offices and fill out many different forms. It is also unnecessarily expensive for the State and for local administrations to manage.

The GOU is developing new definitions and new concepts for this purpose. This paper recommends ways to create a unified and more effectively targeted system. There are two approaches used to defining the poverty level. The first, used in Ukraine and in the USA, is to estimate the costs of purchasing the goods and services necessary to survive at a minimum standard of living. The second approach, which is used in a growing number of countries, is to fix the poverty level at a certain fraction of a measure of earnings by working people – the average wage or the minimum wage, for example. Although the second approach has several advantages over the former, it cannot yet be adopted in Ukraine because the measurement of income is less reliable than the measurement of expenditures as a way of assessing family need.

Section 2 of this paper describes the current legal terms used on issues related to poverty and guarantees for social assistance and the legal basis for setting poverty levels and minimum subsistence levels – based on these legal terms. Section 3 describes current practices used by the State Committee for Statistics to measure incomes and expenditures -- needed to apply the legal terms in targeting social assistance programs. Section 4 recommends how to create a standardized and simple system for defining eligibility for targeted social assistance and also how to improve the system for measuring individual and family income and expenditures.

³ In June 1998, the cabinet of Ministers raised the share of income households must pay from 15% to 20%. An exception is granted for households consisting of adults whose income consists entirely of pension or invalid benefits.

2. ALTERNATIVE LEGAL DEFINITIONS AND TERMS RELATED TO POVERTY IN UKRAINE

2.1 AN OVERVIEW OF DIFFERENT TERMS

The current legal framework for defining poverty and for setting eligibility for targeted social assistance is confused and inadequate. Recognizing this, both the Supreme Rada and the Cabinet of Ministers are developing ways to implement the guarantee or a "minimum subsistence level". There are at least four terms of critical importance – yet none is clearly defined in the law and none linked directly to social assistance programs. These terms are:

- Minimum Subsistence Level. This term is used in the Constitution to define what all Ukrainians are guaranteed – and is therefore closely linked to eligibility for targeted social assistance. The Constitution states that “pensions, other types of social benefits that comprise a major source of living shall ensure a living standard not lower than a minimum subsistence level established by the law” (Article 46, paragraph 3). A draft law “On a Minimum Subsistence Level,” was submitted to the Supreme Rada on January 22, 1998. It defines the term as the costs of a set of food products, non-foods, and basic services that ensures basic physiological and socio-cultural needs of a human being – although a new draft law is being prepared.
- Minimum Consumption Level. This is the per capita monthly income needed to give a disabled person the ability to purchase goods and services at a minimum level that will specified in draft legislation known as the Law “On a Minimum Consumption Level”. This is intended to be the basis for targeting assistance to those least able to look after themselves. The law does not define a minimum consumption level for working age adults or for children and is therefore of little use as the basis for defining poverty.
- Minimum Consumption Budget. This is a set of food products and non-foods and services in the in-kind and money equivalent that meets the basic human needs, as defined in the Law “On a Minimum Consumption Budget,” 1991. The preamble of the law states that it lays the “grounds for social protection and social guarantees for the population of Ukraine in a transition to a market economy”. The Law is no longer in affect due to the passage of the Law “On a Minimum Consumption Level” (see preceding bullet).
- Poverty Level. In most nations, social assistance policy is based on providing assistance to all people and families that fall below the “poverty level.” Laws creating and governing the administration of social assistance programs usually specifically refer to the poverty level. In addition, there are laws assigning responsibility for setting the poverty level. The responsibility usually rests with the national statistics-collecting agency. Ukraine has defined the term “poverty level” but has not linked it to social assistance programs.

In addition to these four terms, normative acts and social protection programs use two other terms when discussing the issue of poverty. These are:

- Minimum pension benefit. Because of the very low level of pension benefits received by people who have not worked for the full 35 years or have worked in low-paid work, the Pension Fund has paid supplementary benefits to provide a guaranteed minimum pension. This was defined in the law XXXXX

- Minimum income. Legal basis????

These terms are discussed in detail in the following subsections of this chapter.

2.2 MINIMUM SUBSISTENCE LEVEL

The Constitution of Ukraine states that citizens will be guaranteed a minimum standard of living through social protection programs. The guarantee defines what may be regarded as the poverty level, calling it "the minimum subsistence level." The Constitution states that "Pensions and other social payments and benefits that are the principal source of living shall ensure a living standard not below a minimum subsistence level specified by the law" (The Constitution of Ukraine, Article 46, paragraph 3).

However, the Constitution does not define the minimum subsistence level. This definition would be provided with the enactment of the draft law "On a Minimum Subsistence Level." Two versions of this draft law have been prepared. The first was submitted to the Supreme Rada in January 1998. The second is being drafted by the State Committee for Statistics.

2.2.1 Supreme Rada Draft of "Law on Minimum Subsistence Level"

A draft version of the law "On the Minimum Subsistence Level" was submitted to the Supreme Rada on January 22, 1998, by a group of deputies headed by Mr. Oleg Chupakhyn. The draft states: "A minimum subsistence level is a cost value of food and consumer baskets that provide for basic physiological, social, and cultural needs of a human being" (Article 1). It would be calculated using "scientifically grounded and consumption balanced standard consumer baskets based on minimum consumption norms and normatives" (Article 2, paragraph 2). Thus, it is envisaged that the minimum subsistence level will be calculated in a two-stage process:

1. Developing a standard set of commodities and services – the so-called consumer basket;
2. Setting minimum consumption norms per capita for each of these goods and services; and
3. Following the practice in other countries, creating a system of adjusting normatives for families of different sizes.

Then, it is necessary to estimate how much a family needs to spend to purchase these basic goods and services. Most countries, estimate different poverty levels differentiating among regions and by type of residence (usually, urban and rural areas). Cost surveys should be made at the lowest cost shops in an area. At present, Ukraine does not publish data that would allow differentiation by region and type of residence and publishes the average, not the lowest, prices. Ukraine also does not attempt to adjust for family size. A six-member family is assumed to require six times as much income as a single member family. In most other countries, additional adults are weighted by a factor of less than one.

The Supreme Rada draft "On a Minimum Subsistence Level" replicates most of the language in the prior law "On a Minimum Consumption Budget." The major differences are that the new law uses a new term and requires approval of the minimum subsistence level by the Supreme Rada based on recommendations submitted by the Cabinet of Ministers of Ukraine. While introducing the new term, however, the draft does not cancel the old term.

The draft does call for the calculation of the "the minimum subsistence level for major social-demographic groups in the average per capita and per member of households of various composition" (Article 2, paragraph 3). It, therefore, would allow for the estimation of different minimum subsistence levels according to the size and composition of the family.

Article 3 defines broad procedures for estimating the minimum subsistence level. It provides a list of general food and other expenditures to be included. It defines that the cost of the minimum subsistence level is determined “depending on average retail prices for corresponding goods and services – allowing for all types of trade” (Article 3, paragraph 3).

Article 4 defines procedures for estimating and approving the minimum subsistence level. The Cabinet of Ministers would make estimates, considering alternatives drafted by trade unions and the Association for Protecting the Rights of Consumers. Then the proposed minimum subsistence level would be examined by a panel of experts. The draft would be submitted to the Supreme Rada each year, together with the State Budget of Ukraine. The minimum subsistence level could be revised during the year if consumer price increases. The revised level would be reviewed by the Rada at the same time as the Rada reviews other State Budget indicators (Article 4, paragraph 3).

2.2.1 State Committee for Statistics Draft of "Law on Minimum Subsistence Level"

The State Committee for Statistic is preparing a version of the draft law, with some important differences from the version prepared by the Supreme Rada. While the Supreme Rada draft states clearly that “The minimum subsistence level is the cost value of the food and consumer baskets in the in-kind or money form,” the GosKomStat definition is less clear. It states: “A minimum subsistence level is a measure that, in the money form, defines a level of consumption of foodstuffs and consumer goods required to ensure human vital functions and health protection”. This implies that there exists an absolute “level of consumption,” and a minimum subsistence level defines only its cost.

The provision in the Supreme Rada version to allow for differences in household size and composition is also omitted in the GosKomStat version. The first draft clearly enumerates items and services to be included in the minimum subsistence level. The GosKomStat draft refers only to a procedure – to be defined -- for listing items. The list would be prepared in collaboration with the Federation of Trade Unions of Ukraine, and would be approved by the Cabinet of Ministers.⁴ The draft is supplemented with the draft “Procedure of Defining a Minimum Subsistence Level,” which specifies that the minimum subsistence level consists of 5 elements:

- 1) Foodstuffs;
- 2) Nonfoods;
- 3) Housing and communal services;
- 4) Other services;
- 5) Taxes and other mandatory payments.

Food items would be defined using the 1991 procedures established by the Ministry of Health Protection created a minimum food basket that includes 43 items classified under 12 groups. The amounts of each food item were different for each of 11 age groups and for males and females.⁵ Neither the items included in the food basket nor the amounts determined for each item are regarded as satisfactory by international experts. The World Bank reviewed Ukraine’s food basket and found

⁴ Besides, of many trade unions that function in Ukraine the law allows only an “official” trade union to participate in defining a minimum subsistence level. The GosKomStat draft has other objectionable provisions and numerous inaccuracies. For example, the Supreme Rada would not approve the cost of the minimum subsistence level, but would “define” it – although what is meant by defining is not described in the draft.

⁵ The A selection of groups is disputable, for examples children under 18 years are divided into 5 groups, while adults – only into 3 groups, separately for men (18-59, 60-74, and 75 and older) and women (18-54, 55-74, and 75 and older)

it more than adequate for survival.⁶ In fact, it identified the level of some nutritional elements (for example, saturated fat) as dangerously high. In addition, the food component of the MCB does not represent the lowest cost combination of foods necessary to achieve its nutritional content. The food component of the MCB, therefore, has serious disadvantages as the basis for drawing Ukraine's poverty level.⁷

The share of expenditures for non-food items is determined statistically, using data on such expenditures by the lowest decile of the population using data compiled through GosKomStat's quarterly survey of household income and expenditures. It would be set equal 20% of the cost of the food basket.⁸

The measurement procedures for monthly expenditures on housing and communal services would also be specified statistically. At another point in the draft legislation, however, it is stated that it should be set equal to 15% of the cost value of a minimum subsistence level.⁹ The costs of "other services" and "taxes and mandatory payments" would also be determined statistically, using actual expenditures of the lowest decile of the population in the quarterly income and expenditure survey. Using data from August 1997, it is possible to estimate what the "minimum subsistence level" would be. This is shown in Table 2 below.

**Table 2: Hypothetical Estimation of Minimum Subsistence Level
(Using Cost Data from August 1997)**

<i>Components of Minimum Subsistence Level</i>	<i>Percent</i>	<i>Hryvnya (Aug 1997)</i>
1. Foodstuffs	65.1%	X
2. Nonfoods	13.6%	X
3. Housing and communal services	15.0%	X
4. Other services	4.0%	X
5. Taxes and mandatory payments	2.3%	X
Total	100%	108.5

In August 1997, the cost of the minimum food basket was 70.67 Hrn per capita per month. This would correspond to a minimum subsistence level of 108.5 Hrn, using the methodology as described in the draft law. It is not possible to estimate how this per capita average would be adjusted for individuals of different ages and for families of different sizes. The size and age distribution of household members should be taken into account when establishing poverty levels for different types of family.¹⁰

⁶ See *Instruments for Social Policy Design: The Minimum Consumption Basket*. The World Bank, Washington DC, 1993.

⁷ Ibid.

⁸ It is not clear why it is regarded as necessary to estimate these components statistically as well as set their level as a specific ratio of food expenditures.

⁹ This would have to be modified to reflect the provisions of Decree XXX that raised the share of income families must pay from 15% to 20% in July 1998. This decree excludes from the requirement to pay the increased share families made up of adults whose income consists entirely of invalid or pension payments.

¹⁰ Economies of scale and equivalence scales currently used by the U.S. Census Bureau to adjust poverty thresholds for differences in family size and composition allows one to draw a more accurate picture of families' poverty situation. The equivalence scales implicitly used in deriving the official poverty thresholds of OECD countries and the U.S. can be approximated with a simple formula:

$$(I) \quad W = D / S^e$$

W is defined as the family equivalent income per capita. It can be calculated from family disposable income D and size S. As can be seen, the result of the computation depends on a single parameter e, the elasticity of need with respect to family size. The family size elasticity varies between 0 and 1, with larger elasticities implying smaller economies of

2.3 MINIMUM CONSUMPTION LEVEL

The 1991 Law "On the Minimum Consumption Level" includes four components (the list does not include taxes and other mandatory payments and dues) in the minimum consumption level. These are:

- 1) Food;
- 2) Nonfood items;
- 3) Housing and communal services;
- 4) Other services.

Food items are, as with the new "minimum subsistence level" estimated based on a food basket, created from "social norms of consumption for persons unable to work" by appropriate scientific institutions. They were embodied under the name "Temporary Norms of Consumption of Foodstuffs for Disabled Persons for the Critical Economic Situation." Although they have never been formally approved by decree of the Cabinet of Ministers, as is required by law, they are employed at present. The volumes are shown in Table 3, below:

**Table 3: Annual Volumes of Food Consumption for Major Food Groups
(Included in Minimum Consumption Basket)**

Item	Volume of Monthly Consumption
Bread	110 kg
Potato	135 kg
Vegetables	80 kg
Fruits, berries	37 kg
Meat and fish	23 kg
Dairy products	180 kg
Eggs	180
Sugar, confectionery	21 kg
Vegetable oil	7 kg

Note: A detailed list of all foodstuffs and their chemical composition is presented in Attachment 1.

To determine the cost of a food basket, the State Committee for Statistics is required to collect and analyze information on average prices in regions and nationwide. Based on these average prices,

scale. The OECD equivalence scale, for instance, assigns a weight of one to the first adult, 0.7 to other adults, and 0.5 to each child. Given the size and composition of an average OECD family, can be roughly approximated by e equal 0.7. The Congressional Study Panel examined the official poverty threshold currently used by the U.S. Bureau of Statistics in 1995. It recommended that the scale economy factor (which is a power in the formula) should lie in the range of 0.65 to 0.75. In addition, the scale proposed by the panel treats children on average as consuming 70 percent as much as adults before applying the above mentioned factor e to the number of adult equivalents in the family. Modifying formula (I), a measure recommended by the panel for determining family equivalent income can written as follows:

$$(II) \quad W = D / (N + 0.7K)^e;$$

where N is the number of adults in the family, and K is the number of children. The denominator in formula (II) can then be interpreted as the equivalent number of single persons. The effect of suggested equivalence scale (II) and family type on estimates of family equivalent income can be illustrated with the example of a three-person family of two parents and one child. Suppose that the total disposable income (D) of this family is 200 Hrn per month. Also assume that $e=0.7$, $N=2$, and $K=1$, and $W=100$ per person. The simple average measure of family disposable income per capita that is currently used in Ukraine would be $W=66.67$ Hrn (because in the case of the official poverty measure the denominator in the formula (II) is set equal to S , family size). This simple example clearly illustrates the importance of economies of scale and family composition in assessing family poverty situations.

the Ministry of Labor (now the Ministry of Labor and Social Policy) was to determine the cost of the food component within the cost value of the poverty level (the law does not require the calculation of different costs by region or by urban and rural differences).

In compliance with the procedure approved by the Cabinet of Ministers, the cost of the consumer basket (with an exception of housing and communal services) should be determined based on actual expenditures of low-income families. At present, no such procedures are carried out. The Law specifies that the cost of non-food items in the consumer basket cannot be less than 15 percent of the cost of the food items (Article 2, paragraph 3).

The cost of the third item, housing and communal services, is to be determined in compliance with the Decree of the CM of Ukraine, No. 119, February 4, 1998. According to the Decree, household expenditures for such services (if the household is to receive a housing subsidy), should not exceed 15% of the total income of all persons with a propiska for a specific residence (20% since July 1998). This norm is used in calculating the costs of housing and communal services, which is why it comprises 15% of average household per capita income.¹¹ In determining the minimum consumption level, the cost of the "other services" component should, by law, be determined based on an analysis of actual household expenditures by the State Committee for Statistics.¹² It does not perform this task at present. In 1997, the minimum consumption level was set at 70.9 Hrn per capita per month. In 1998, this was raised to 73.7 Hrn per capita per month.

Unfortunately, no current draft includes in the basket of goods and services expenditures necessary for families with working members – such as transportation costs and the costs of day-care of children below school age. This discourages participation in the workforce.

In defining the Minimum Subsistence Level children over the age of 14 years should be included on as adult household members. In most normative documents in Ukraine, all children under 18 years of age are considered to consume less food, clothing and other goods than adults. In most European countries, however, the dividing line between children and adults is set lower from the perspective of weighting the household poverty level. The usual dividing age is 14 years.

In summary, the procedure for setting what would be called "the poverty level" in most countries, under current Ukrainian legal and administrative procedures is as follows:

- 1) The cost of a food basket is defined (the contents of the basket itself is determined by "Temporary Food Consumption Norms for Disabled Persons under Critical Economic Situation" developed by the Ministry of Health Protection of Ukraine). Average food prices for Ukraine, estimated by the State Committee for Statistics, are used to do this.
- 2) The cost of nonfood items is set equal to 15% of the cost of the food basket.
- 3) The cost of services (excluding housing and communal services) is determined. This should be done using data on actual expenditures provided by The State Committee for Statistics, but in practice is simply set as equal to a percentage of the cost of food items.
- 4) The cost of housing and communal services is set equal to 15% of the household per capita income, although it should be set based on family expenditure survey data provided by the State Committee for Statistics.

¹¹ In compliance with Decree of the Cabinet of Ministers, February 4, 1998, No 119, housing and communal service expenditures should not exceed 15% of a total income. This, however, is only for an amount of living space occupied by the household that below the amount of space defined by the sanitary normative. In determining the cost value of a minimum consumption level, however, no such a limitation has been imposed.

¹² The law does not state whether expenditure data should be that of low-income households or the average for all households

2.4 POVERTY LEVEL

The poverty level is defined in most countries as the level of income below which households and individuals will be eligible for some type of targeted social assistance. It is, therefore, equivalent to Ukraine's "minimum subsistence level" (or the earlier "minimum consumption level").

There are two different methodologies employed, internationally, for setting the poverty level. These are: 1) an "absolute" poverty level, defined in terms of the ability to purchase a fixed "basket" of goods and services – this is the method used in Ukraine (and in the USA); and 2) a relative poverty level -- used in a growing number of countries – defined as a fraction of average family income, average wage, or average per capita expenditures.

2.4.1 *An Absolute Poverty Level*

The methodology for setting the poverty level used by the Government of Ukraine is an "absolute poverty level" -- a fixed volume of consumption of goods and services expressed as the amount of money needed to purchase all items. An absolute poverty level, however, adjusts only for changes in prices and not for changes in consumption patterns. It should be adjusted frequently in response to shifts in consumption patterns by families. In Ukraine, today, for example, the share of household expenditure devoted to housing and communal services is rising as a result of increases in tariffs. As families spend a larger and larger share of their income on housing and communal services, the established "absolute poverty level" will fail to rise rapidly enough because of the small weight attached to these items in consumer budgets. The problem with an absolute type of measure is that it is difficult to establish an "absolutely objective" minimum.¹³

The absolute poverty level also fails to adjust for rising real incomes among the population at large. Poverty is relative. As the standard of living of the population and the availability of services and goods changes, so the poverty level must also be changed.¹⁴ Poverty is relative, not absolute. Therefore, it is important for Ukraine to establish an acceptable and transparent process for systematically "updating" the poverty level. This is best done by fixing the poverty level as a percentage of a regularly measured economic indicator – that is, to create a relative rather than an absolute measure of poverty -- discussed in the following subsection.

2.4.2 *A Relative Poverty Level*

Many countries set the poverty level as a percentage of the average household income, the average wage, or of average household expenditures.¹⁵ This measure can be calculated directly from the statistics provided from the quarterly survey of household incomes and expenditures. There is no need to carry out regional surveys of prices or to worry about what items should be included in the consumption basket. In addition, the poverty level automatically increases as overall economic conditions improve.

Because of the underreporting of income in Ukraine, the best "benchmark" against which to measure the poverty level would be average household expenditures. This is the measure used in a recent study of poverty in transitional economies by the World Bank. The poverty level was defined as two-thirds of the mean household expenditure per capita.

¹³ See the work of World Bank consultants Anne Kendall, Bradford Mills, Juan Munoz, and David E. Sahn in *Instruments for Social Policy Design: The Minimum Consumption Basket*, The World Bank, Washington DC, 1993.

¹⁴ In the USA, for example, poor families are expected to be able to afford a telephone and even an automobile. It would be unrealistic to include these items in the "basket" of commodities and services of a poor Ukrainian family.

¹⁵ See The World Bank "Determinants of Poverty," Op. Cit..

In late 1996, the Ministry of Labor and the Ministry of Statistics proposed to introduce a “relative” measure of poverty in Ukraine to replace the consumption basket procedure. They proposed to measure the poverty level at between 47% and 50% of the average per capita income.¹⁶ As the differences between average (or mean) household expenditures and incomes narrowed to “European” standards, Ukraine could switch from measuring poverty against expenditures to measuring poverty against income.

2.5 OTHER TERMS

Some level of social protection is also provided by the minimum wage and the minimum pension benefit – described in the following subsections.

2.5.1 *The Minimum Wage*

Article 95 of the Labor Law Code of Ukraine specifies that:

“The minimum wage is legislatively established amount of wage for unqualified work that is used as a lower limit of remuneration for monthly or hourly norm (volume) of work performed by a worker.

The minimum wage will not include bonuses, supplementary and compensatory payments.

The minimum wage will be established and updated in compliance with Articles 9, 10 of the Law of Ukraine “On Labor Remuneration”.

The minimum wage is a Government social guarantee that is mandatory nationwide for businesses, institutions, and organizations irrespective of a form of ownership and type of activities as well as for individuals».

The Law “On Labor Remuneration” establishes the lower limit of the minimum wage: “The minimum wages should not be lower than the per capita minimum consumption level” (Article 9, paragraph 2). The minimum wage is to be set by the Supreme Rada based on recommendations submitted by the Cabinet of Ministers of Ukraine. This should occur annually, at the same time as the Rada considers the State Budget of Ukraine (Article 10, paragraph 1).

Therefore, the minimum wage should not be lower than the minimum consumption level. However, the Supreme Rada, by the Law of Ukraine “On Establishing the Minimum Consumption Level and Minimum Wage for 1998”, established the minimum consumption level at Hrn 73.7 and the minimum wages at Hrn 45, effective January 1, 1998. The minimum wage is to be raised to Hrn 55 effective July 1, 1998 – still below the minimum consumption level.

2.5.2 *Minimum Pension Benefit*

Amounts of pension benefits are regulated by two Laws of Ukraine: “On Pension Security” and “On Pension Security of Servicemen, Managerial Staff and Rank and File of Internal Affairs Authorities”. This subsection discusses only the first law since it affects majority of the population.

The Law “On Pension Security” regulate granting labor (old age, disability, survivor’s, and long service) pensions and social pensions. Long service pensions usually exceed standard old-age pensions.

“Old-age pension benefit will be granted at the rate of 55 percent of earnings (Article 64) but at least at the amount of minimum pension benefits” (Article 19, paragraph 1).

The minimum pension benefit, like the minimum wage, should be clearly related to the minimum consumption level. Specifically,

“The minimum old-age pension benefit will be established at the amount of the minimum consumption budget. Under economic crisis and production decline the minimum old-age pension benefit will be not lower than the minimum consumption level” (Article 19, paragraph 3). In so

¹⁶ See “Poverty in Ukraine,” Paper by Dr. Andrei Revenko, Institute of Economic Forecasting, Ukrainian Academy of Sciences, February 1998. This would place between 7.2 million and 8.4 million people (the latter is 16.5 percent of the population) below the poverty level

doing, “the minimum old-age pension benefit will be adjusted to either minimum consumption budget or minimum consumption level” (Article 19, paragraph 4).

Nonetheless, benefits (including all supplements) of many individuals (some Hrn 55 in August 1998) are barely one half the minimum consumption level.

Minimum disability and survivor’s benefits are equal to social benefits. Social pension benefits for various categories of individuals are 30%, 50%, 100%, and 200% of the minimum old-age pension benefit which, in turn, cannot be lower than the minimum consumption level. Consequently, the current laws allow some categories of pension benefits be lower than the minimum consumption level. This contradicts the basic principle of the minimum wage and minimum old-age pension that they should not be lower than the minimum consumption level.

Such low benefits, only 30% of 50% of the minimum old-age benefits (i.e. are lower the minimum consumption level), make their recipients eligible for social assistance, for which they must apply to the same agency responsible for granting pension benefits (Article 5 of the Law of Ukraine "On the Minimum Consumption Level"). This means poor people will be pushed towards another round of bureaucratic applications, although the Cabinet of Ministers of Ukraine, despite the requirements of the above-mentioned article, has not yet established procedures for granting this assistance.

3. CURRENT PROCEDURES FOR MEASURING FAMILY INCOMES AND EXPENDITURES IN UKRAINE

3.1 OVERVIEW OF SOURCES OF INCOME AND EXPENDITURE STATISTICS

There are two major sources of information about the economic status of families, individuals and households. All three measures are important because of the problems in accurately measuring incomes and expenditures from a single source. Careful and constant statistical research is needed to use relationships among these two sources to confirm and calibrate statistical reports from each source. The two sources are:

- The Quarterly Survey of Family Incomes and Expenditures conducted by the State Committee for Statistics. This is based on questionnaires filled out by 16,400 families each quarter. This is the only source of data that is derived from the population as a whole.
- Administrative Databases derived from caseloads of families or households receiving targeted social assistance. Local offices administering all social assistance programs are required to provide monthly summary reports to oblast departments for the State Committee for Statistics and for the Ministry of Finance. These summary reports are compiled into monthly reports that are published by the State Committee for Statistics. The Ministry of Finance does not publish monthly or quarterly reports from the financial statistics but does make quarterly estimates of budget outlays for different social protection programs.

The latter databases are obviously "biased" in the sense that they include only households or families with incomes low enough to qualify for social assistance. Nevertheless, because the information concerning family or household income must be verified by local social assistance offices, income data in administrative databases may be more accurate than the information volunteered by households in the quarterly survey of income and expenditure. For example, household data compiled from housing subsidy caseload databases shows a consistently higher per capita income than is recorded for the lowest quartile in information reported from the income and expenditure survey.¹⁷ Therefore, it is possible to use data from each of these two sources to test the accuracy of data reported in the other database.

Potentially, the most useful database for "auditing" family income and expenditure survey results will be information reported to the State Tax Administration. The State tax Administration has announced that the new system of quarterly personified reporting, using individual Taxpayer Identification Numbers (TIN), will begin during 1998. Nevertheless, a complete taxpayer database is still several years away.

3.2 PROBLEMS WITH THE HOUSEHOLD INCOMES AND EXPENDITURES SURVEY

Both the World Bank and the International Monetary Fund have been working with GosKomStat for several years to improve reporting on household incomes and expenditures in Ukraine. With new computers provided by the World Bank, GosKomStat is beginning the difficult tasks of implementing these changes. Neither of these two donors, however, have adequate resources to provide technical assistance to GosKomStat staff to implement the new data collection,

¹⁷ See PADCO Policy Report No. 27, "Poverty Among Households receiving Targeted Social Assistance," October 1998.

compilation, nor analysis procedures. Therefore, GosKomStat has requested assistance in this program from the USAID social sector reform project.

The major issues that must be addressed in implementing reforms are:

3.2.1 *Accurate and Comprehensive Reporting of Both Incomes and Expenditures*

Several international organizations have reported that measurement of family incomes among members of the former Soviet Union is far less accurate than in Central and Eastern European nations.¹⁸ Typically, when standard procedures are used to record family incomes and expenditures, expenditures in the former Soviet Union are twice as large as incomes – clearly an impossible situation.¹⁹ This problem is illustrated in Table 4, below. The table shows the results of a World Bank study of household incomes and expenditures in six countries – including 2 former members of the Soviet Union and four central European countries.

The reasons for the large differences between what people say they spend and what they claim they receive as income have not been subject to detailed analysis. Experts, however, attribute the problem to two factors: 1) the very large share of foodstuffs grown on small private land plots – the value of which is not included in income but which is reflected in estimated expenditures; and 2) the large fraction of economic activity that is unregistered – the gray economy – typical of all post-Soviet economies. This is the product of large barter transactions as well as deliberate evasion of reporting.²⁰

The data in the Table show that households in Russia and Kyrgyz have very different expenditure patterns from those in central Europe. A much lower share of household expenditures in Russia and Kyrgyz devoted to health and to housing and communal services (the result of continued heavy state subsidization of these sectors), and much less discretionary expenditures on education and culture. Expenditures are also much less closely related to incomes than in central Europe. Therefore, several World Bank experts have concluded the underreporting of income in the former Soviet Union is so serious that they recommend using expenditures instead of income to measure the economic status of families.

Although Ukraine's quarterly income and expenditure survey measures both income and expenditures, current statistical techniques and reporting procedures emphasize incomes and downplay expenditures. It is likely, however, that the latter are a more accurate measure of the economic status of families than are incomes. Therefore, in collecting and reporting data from the quarterly survey, greater emphasis should be placed on expenditures.

¹⁸ See Jeanine Braithwaite, Christian Grootaert, and Branko Milanovich, *Determinants of Poverty and Targeting of Social Assistance in Eastern Europe and the Former Soviet Union*, The World Bank, Washington DC, February 1998, especially chapter 1.

¹⁹ The World Bank, Op. Cit., found that monthly expenditures were 2.33 times monthly incomes in the Kyrgyz Republic and 1.5 times monthly incomes in Russia. A similar survey conducted in Ukraine during 1995 (but not used in the cited report because the Ministry of Statistics claimed the World Bank study in Ukraine was flawed) also found that family expenditures were twice as high as family incomes.

²⁰ The prevalence of unregistered and undocumented economic activity and income, in turn, is the result of several factors. These include cumbersome and poorly enforced regulations, high marginal tax rates, corruption among officials administering the tax and regulatory systems, and fear of the consequences of reporting information to official organs.

Table 4: Household Income and Expenditures per Equivalent Adult, Selected Countries*
(\$ Per Month – Adjusted Exchange Rates)**

<i>Expenditure Item</i>	<i>Bulgaria</i>	<i>Estonia</i>	<i>Hungary</i>	<i>Poland</i>	<i>Kyrgyz</i>	<i>Russia</i>
Food	180	135	137	125	60	155
Housing	94	49	129	54	6	6
Education/culture	14	11	21	18	0.2	3
Health	4	6	15	20	2	2
Transport/Communications	13	15	42	26	6	5
Clothing	13	25	28	21	6	42
Private transfers	8	5	8	Na	2	8
Other	35	19	33	31	4	31
Home consumption	***	19	***	13	8	19
Total Expenditures	362	285	412	308	94	271
Expenditure per capita	255	194	297	213	56	194
Income per capita	206	190	278	229	24	130
Ratio: Expenditure/Income	1.24	1.02	1.07	0.93	2.33	1.50

Source: Jeanine Braithwaite, Christian Grootaert, and Branko Milanovich, *Determinants of Poverty and Targeting of Social Assistance in Eastern Europe and the Former Soviet Union*, The World Bank, Washington DC, February 1998, p. 15.

Notes: * The number of household members is weighted – reflecting estimates of the contribution of additional household members to household costs. The first adult member of a family counts as one, the second, and subsequent, adults count as 0.7; children under the age of 6 count as 0.4. In Ukraine, no weighting system for household members has been developed. Therefore, a family of six members is assumed to need six times as much income to survive at a given standard of living as a family with only one member. In most countries, it is assumed that there are “economies of scale” in family expenditure

** Currencies are converted into dollars not at official exchange rates but based on comparisons of prices of key consumption goods.

*** "Home consumption" expenditures are included in food expenditures for Bulgaria and Hungary.

3.2.2 Improving the Sample of Households Participating in the Survey²¹

The IMF reports that the sample of 16,400 households used as the basis for the quarterly income and expenditure survey is not representative of the population as a whole. Because the sample is drawn from place of work rather than from place of residence (the latter is the typical sample basis used in western countries), it may be biased toward employees of state enterprises, which probably creates a bias toward lower-income families. Because the sample lacks a specific “rotation plan” for regularly replacing a part of the sample, it suffers from a progressive loss of “representedness.” Families are paid to complete the lengthy questionnaires, which may also have encouraged a disproportionately large number of low-income families to participate. GosKomStat also reports that a significant number of families selected for the sample refuse to participate.

The sample is also unnecessarily large and collects what IMF consultants have judged an excessive amount of data. This slows data processing and raises costs. In 1998, GosKomStat began implementing improvements in the survey sample and in the survey questionnaire.

²¹ The conclusions in this section are based on preliminary reports prepared by consultants to the IMF and on conversations with IMF experts. See “Design and Implementation of a New Household Budget Survey for Ukraine,” Alberto Martini, the Urban Institute, Washington DC, November 1997.

3.2.3 Including Estimates Unreported Income

The prevalence of the gray economy – larger than the official economy by some estimates²² – means that incomes of many households and individuals are underreported. While there have been a few attempts to measure the gray economy, there are, as yet, no proposals for its systematic inclusion in measures of GDP, per capita income, and household income distribution.²³

The simplest approach to estimating the volume and distribution of unreported income is obviously the differences between household expenditures and incomes. GosKomStat, therefore, should prepare analyses of geographic, demographic, and social factors related to this difference as part of the quarterly report on income and expenditures.

A second approach to including unreported income in estimates of family income is to collect information about the ownership of assets in the survey and to impute incomes from these assets. The draft law “On Social Assistance” submitted to the Cabinet of Ministers in July 1998 recommends that, in determining eligibility for targeted social assistance, assets as well as income be taken into consideration (see Article 10). Assets would include the ownership of dwelling units, automobiles, land plots and financial assets (bank accounts, privatization certificates, and cash). The draft law does not specify how assets would be taken into consideration – deciding this will be the responsibility for the Cabinet of Ministers. If Ukraine is to embark on including assets as well as income, these factors should be considered when measuring family income and expenditures in the quarterly survey. This will require the development of new methodologies for asking questions concerning asset ownership and for the development of ways of imputing income associated with asset ownership. The experience of the USA may be helpful in this regard and is summarized in Table 5, below.

Reasonable estimates of imputed income earned through the ownership of assets can be verified by examining the relationship between the extent to which a family's expenditures exceed its income to the ownership of assets. While it is not possible to include fully all sources of unreported income, it is possible to narrow the gap between reported incomes and expenditures to acceptable “European” levels.

²² See Daniel Kaufman, “Measuring the Ukrainian Economy,” World Bank paper, 1997.

²³ TACIS conducted a pilot survey to measure gray economy income in late 1997. The results of the survey have not yet been released.

Table 5: Identifying and Valuing Assets of Social Assistance Applicants in the United States

Identifying Asset Ownership	
<i>Asset</i>	<i>Method of Identifying Ownership</i>
1. Automobile	1. State Motor Vehicle Administrations
2. House or apartment	2. Local Tax Assessors' Offices
3. Second or multiple house(s) or apartment(s) or land	3. Local Tax Assessors' offices or income tax forms
4. Luxury items such as jewelry, fur coat	4. Observation in house
5. Cash, bank account, securities	5. Bank statements, Past Income Tax Returns, Credit Check
Measuring Asset Value	
<i>Asset</i>	<i>Method of Placing Value on Asset</i>
1. Automobile	1. "Blue Book" showing average retail price of automobiles
2. House or apartment	2. Local tax assessors' office or appraisal
3. Second house or apartment or land	3. Local tax assessors' office or appraisal
4. Clothes	4. Observational estimate
5. Luxury items such as jewelry, fur coat	5. Jewelry/specialist appraisal
6. Cash, bank account, securities	6. Bank statements/Past Income Tax Returns/Credit Check
<i>Two Methods Used to Include Assets When Determining Eligibility for Targeted Assistance</i>	
1. Setting a cap on the total value of assets owned by a family (in the USA, today, the cap is about \$5,000) 2. Imputing an income from assets owned by a family (in the USA, some programs use a simple rule that sets annual income at 5% of the value of an asset)	

4. RECOMMENDATIONS FOR IMPROVING THE LEGAL AND STATISTICAL BASIS OF POVERTY

4.1 OVERVIEW

If scarce government resources are to be targeted effectively toward helping the poorest families, three improvements in the legal and statistical basis of poverty are needed. First, a single definition – the Minimum Subsistence Level – must be defined in normative acts to determine eligibility for assistance. Second, new procedures for applying this methodology must be introduced, and, third, data measuring household income and expenditures must be improved. These are large tasks. The following subsections describe a strategy for implementing these changes.

The principles that should guide the proposed reforms are:

- The Minimum Subsistence Level should fulfill the Constitutional guarantee to the people of Ukraine;
- The procedures for setting the Minimum Subsistence Level each year should be simple, accurate, and based on verifiable data;
- The system for setting eligibility requirements for targeted social assistance (at is, the Minimum Subsistence Level) should lead to a fiscally feasible State Budget.

The program outlined in this section of the report meets these principles.

4.2 ESTABLISH A SINGLE LEGAL STANDARD FOR TARGETING SOCIAL ASSISTANCE

Eligibility for all social assistance programs – including housing subsidies, childcare assistance, and targeted family assistance (as defined in the draft law "On Social Assistance"), should be linked to the Minimum Subsistence Level. This linkage should be based on two parameters: the Minimum Subsistence Level itself, and a coefficient that defines the fraction of the Minimum Subsistence Level beneath which targeted social assistance will be provided to families.

Under Ukraine's present economic and fiscal conditions, it is not possible to raise all families to the Minimum Subsistence Level. PADCO estimates that, to provide supplementary assistance in cash to families receiving housing subsidies to raise per capita incomes in all families to 73.7 Hrn per month (the poverty level in mid-1998) would cost 1.3 billion Hrn per year.²⁴ Since the Minimum Subsistence Level will be higher than the poverty level (because it will include more goods and services), it is likely to be several years before the State Budget will have enough money to fully realize the Constitutional guarantee through spending on social assistance programs.

4.2.1 Setting the Minimum Subsistence Level

The major recommendation of this report is that Ukraine should analyze the implications of changing from using the cost of a given "basket" of goods and services to using a fixed percentage of mean household expenditures as the basis for defining the minimum subsistence level. The advantages and disadvantages of making this change are summarized in Table 6 below.

²⁴ See PADCO Policy report No. XX, "Creating a Guaranteed Minimum Income Program for Ukraine," October 1998, Table 4.

The major disadvantage of the proposed method -- use of the percentage of average expenditure approach -- is that it does not guarantee that families will be able to purchase enough basic goods and services to survive. That depends on the percentage of average expenditures that is used to set the minimum subsistence level. Therefore, the first step is to analyze, statistically, the relationship between average family expenditures -- as reported in the quarterly survey of income and expenditures -- and the poverty level during the past several years. Comparison will suggest a reasonable percentage of average expenditures to use. Comparison of the results with other objective standards such as those employed by the World Health Organization will ensure that Ukraine's standards are compatible with those in other countries.

Table 6: Advantages and Disadvantages of "Basket" and Expenditure Methods of Measuring Poverty Level

<i>Current Method: Using Basket of Goods and Services</i>	<i>Proposed Method: Using a Fixed Percent of Average Household Expenditures</i>
Advantages	
Ensures that households have enough food and other basic services to survive	Requires no special surveys -- can be calculated directly from data collected within the family income and expenditure survey.
Definition and procedures already exists under Ukrainian law	Requires no updating of "basket components"
	Requires no updating reflecting changes in overall economic and social conditions
	Requires no formula for adjusting for family size; average expenditures for families with different composition can be calculated from quarterly survey data
	Existing income and expenditure survey is large enough to allow calculation of mean expenditures for different families by region and type of residence
Disadvantages	
Requires expensive and time consuming special surveys of the prices of goods and services in different regions	Will require new law on subsistence level which should be preceded by empirical analyses of different measures
Requires updating of goods and services to be included in basket	
Requires updating of shares of total expenditure allocated among different goods and services	
Requires calculation of special formula to take account of family size and composition Would require larger special surveys to allow regional differences and differences by type of residence (urban or rural) to be estimated.	

In summary, the proposed minimum subsistence level should be estimated with the following characteristics:

1. Separate estimates should be made by region (4 or 6 main geographical areas of Ukraine)
2. Separate estimates should be made by type of residence (urban and rural), for each region.
3. A "family composition adjustment factor" should be estimated that provides different weights for disabled, able to work adults, and children.

These different adjustments can be estimated by a standard cross-sectional regression analysis of the data collected through the quarterly survey of income and expenditures.

4.2.2 Setting the "Budget Realization Coefficient"

The concept of the "budget realization coefficient" can be illustrated by a simple example. Assume that the Minimum Subsistence Level is calculated for the year to be 100 Hrn per capita per month. Using data from the quarterly survey of income and expenditures (or from social assistance offices) it is estimated that the budget costs of realizing different fractions of this subsistence level are as shown in Table 7, below:

Table 7: Setting Realization Coefficient from Budget Cost Projections

<i>Realization Coefficient (% of Minimum Subsistence Level used to determine eligibility for targeted assistance)</i>	<i>Projected cost to the State Budget of Ukraine of all targeted assistance programs</i>
0.50	400 million Hrn
0.60	600 million Hrn
0.70	900 million Hrn
0.80	1.3 billion Hrn
0.90	1.8 billion Hrn
1.00	2.5 billion Hrn

In preparing the State Budget, the Ministry of Finance may determine that the total amount that may be spent on targeted social assistance programs is 600 million Hrn. In this case, the proposed realization coefficient included in the State Budget would be 0.60 (together with the Minimum Subsistence Level of 100 Hrn per capita). In passing the State Budget, the Supreme Rada may decide to increase revenues or to shift money from other programs into the targeted assistance category, in order to spend 900 million Hrn. In this case, the realization coefficient would be 0.70. All families with per capita incomes below 70 percent would be eligible for targeted social assistance.

4.3 IMPLEMENTATION OF PROCEDURES FOR SETTING MINIMUM SUBSISTENCE LEVEL

4.3.1 Overall Strategy

Drawing the poverty level is not just a matter of statistics. Selecting a poverty measure is a broader and more complex challenge. Indeed, there is no single, objective, "right" measure. The right poverty level depends on some objective economic and social characteristics, but it also depends on subjective political considerations. The official poverty level must meet at least three objective criteria:

In defining the poverty level, it is always necessary to balance the goals of providing an adequate "safety net" for families with the need to recognize what the government can afford to pay.²⁵ If the government sets the poverty level – the household income level below which the government will provide benefits -- too high, then it will create a budget deficit that will require new monetary emissions to cover. The resulting inflation will make all families worse off. But if the Government sets the poverty level too low, then many families and children will suffer and the long-term consequences on society will require costly remedies later.

Because it requires a delicate balancing of different objectives, setting the poverty level requires a thorough, transparent examination of who is poor, why they become poor, and how long they are likely to remain poor. Policy makers must recognize that adoption of a specific quantitative

²⁵ The purpose of the poverty level is to define a "social safety net": the level of income, which, if families suffer economic misfortune, triggers eligibility for social benefits. A term for this role of the poverty level is often referred to as a safety net in the West, referring to the safety device often used by circus performers on a high wire.

measure, however arbitrary and debatable, will have durable and far-reaching political consequences. Administrations will be judged by their success or failure in reducing the officially measured prevalence of poverty. So long as any families are found below the official poverty line, no politician will be able to claim victory in the war on poverty or ignore the repeated solemn acknowledgments of society's obligation to its poorer members.

To meet these criteria, the Government of Ukraine must update the methodology and the procedures for establishing the official poverty level. While some of the suggested revisions to the poverty level definition will increase the data needed for measuring poverty, the main bulk of recommendations can be implemented with a minimum level of effort. The main recommendations are:

1. GosKomStat, The Ministry of Labor and Social Policy, and the Ministry of Finance should undertake an analysis of the costs and effectiveness of alternative methodologies for setting the Minimum Subsistence Level. This should include a comprehensive review of the currently used nutritional composition of the items included in the proposed Minimum Subsistence Level.
2. The Ministry of Finance, in collaboration with the Ministry of Labor and Social Policy, should develop a fiscal model capable of projecting the costs of raising families to the minimum subsistence level through various means. These may include the proposed guaranteed minimum income program, increases in targeted child care benefits, increases in the social pension, and other proposals. In order to reduce annual political conflicts, this model should be developed in consultation with staff from the Supreme Rada Fiscal Analysis Office.

4.3.2 Implementation

Design and implementation of the new poverty level methodology will require continuing technical assistance from international donors. An effective strategy of collaboration between international donors and the GOU on improving the measurement of the poverty level should include the following steps:

Step 1: Negotiate an Agreement Between International Donors and GosKomStat GosKomStat has formally requested assistance from USAID. Therefore, the first step in any strategy to improve measurement of the poverty level must be the negotiation of a detailed memorandum of cooperation between donors, the Cabinet of Ministers, and GosKomStat. This agreement should include concurrence on the following major steps in the implementation of the new system.

Task 2: Initiate a Program of Statistical Analysis on Poverty in Ukraine in Ukrainian Research Institutions. The level of research in Ukraine on alternative methodologies for setting the poverty level must be expanded -- based on the examples from other countries as well as on Ukrainian methods. This should be implemented by sponsoring research projects with a view to participation in a research seminar after 6 months or 9 months. A panel of international as well as Ukrainian experts should judge the results of Ukrainian (and international) research. The resulting report should be publicly available. To encourage relevant and high quality research, the Ministry of Labor and Social Policy and the GosKomStat should release basic Ukrainian income and expenditure data and housing subsidy caseload data (with individual names suppressed) to research organizations throughout Ukraine.

Task 3: Create a Special Group of Technical Experts responsible for Establishing the Poverty Level Resources within agencies responsible for measuring the poverty level -- especially after recent staff and budget cuts -- have neither the qualifications nor the time to design and implement a new system. Progress is unlikely unless a special team is dedicated to the task and unless the team is provided with adequate funding for staff and tools required for data assembly and analysis) to

complete the task. This group should be responsible for managing research conducted under Task 2, for ensuring the statistical accuracy of data used when estimating the poverty level, and of developing the permanent capacity to set the poverty level.

These tasks will each require international funding -- to finance the initial additional surveys, to pay for work by international experts, and to create the information infrastructure necessary to ensure the timely flow of accurate information.

4.3 RECOMMENDATIONS FOR IMPROVING THE MONITORING OF HOUSEHOLD INCOMES AND EXPENDITURES

The largest and most important task discussed in this report is the improvement of the measurement of income and expenditures of individuals and families in Ukraine. The project will require a large-scale reform of the operations of GosKomStat, training staff in local agencies supplying basic data, and coordination among several international donors. This subsection describes some of the major steps that will be needed in order to ensure that the monthly income and expenditure survey is a useful instrument on monitoring economic and social developments in Ukraine.

Step 1: Review opportunities for providing technical support and improving the system among international donors involved in the issue. A meeting should be convened of international donors involved in statistics issues – including USAID, the IMF, the World Bank, and TACIS, to assess the practicability of creating a coordinated program to improve the income and expenditures survey and internal data compilation and processing procedures in GosKomStat.

Step 2: Negotiate an agreement to reform the system, assign responsibilities, and set dates to complete subsequent steps. If the result of step one is an agreement that it is worthwhile to proceed with a survey improvement project, then the involved parties should negotiate a memorandum of cooperation on the issue before beginning concrete work on restructuring and improving the monthly survey. This agreement should specify what major changes will be made, who will be responsible for specific assistance and tasks, and should include a workplan for implementation of the changes. GosKomStat should sign this memorandum together with all the international donors involved in providing technical support for the process (including USAID, the World Bank, and the IMF). Many of the methodological issues have already been addressed through the work of consultants employed in the IMF program of technical assistance.²⁶ The workplan should include concrete changes such as reducing the sample size, eliminating the sample bias toward low-income participants in the survey, and creating special “sub-questionnaires” dealing with specific economic and social protection issues that would be given to a rotating sample of participants. The workplan should also include the improvement of data storage procedures within GosKomStat, improved procedures for issuing data in machine-readable form to qualified research organizations (perhaps charging a fee for access to the data), and imported techniques for data auditing.

Step 3: Design a nationwide system for reporting information from raions to oblasts to GosKomStat in Kyiv. Data collected by survey experts must often be entered manually. Since there are more than 12,000 questionnaires (even in the proposed smaller sample) and 140 questions on each sample, the data entry task is enormous. The potential benefits of scanner and optical character recognition technology should be investigated.

Step 4: Design systems for maintaining databases and automatically preparing reports. Much time is taken within GosKomStat in preparing reports, graphics, and tables in word-processing format.

²⁶ See “Design and Implementation of a New Household Budget Survey for Ukraine,” Alberto Martini, The Urban Institute, Washington DC, November 1997.

Instead, core data base systems must be connected to programs that automatically prepare charts and tables for monthly, quarterly and annual reports.

Step 5: Design training programs to assist staff in converting to new techniques and to maintain staff skills as new staff are hired Database staff within GosKomStat and oblast departments have not received adequate training to familiarize them with new database programs, software design, computer use, e-mail, and other means of electronically transferring data. The design and implementation of new techniques – described in the previous steps – will have to be accompanied by an extensive training program. To ensure the success of the ongoing training process, special training manuals would have to be prepared and the institute staff who would act trainers would have to be trained.

Step 6: Design and implement a system for the distribution of GosKomStat reports and databases. One of the major differences between Ukraine and western countries with respect to statistics is the secrecy with which GosKomStat and the Cabinet of Ministers envelops many databases – despite laws that call for open and transparent data.²⁷ When data are released, there is little accompanying information concerning the methodology used to collect and process the data. A new system of sharing state statistics and statistical methodology must be developed to ensure that data are regularly available to non-government research organizations - including universities, research institutes, and international donor organizations.

The successful automation of the housing subsidy program has shown how importance these steps are. Without support from international donors at each step, the program to create a better functioning system of collecting, processing and distributing statistics will fail.

²⁷ Article 4, Decree No. 214 of the Cabinet of Ministers, “Regulations on the Ministry of Statistics, Ukraine,” issued March 22, 1993, stated that MinStat shall “ensure the authenticity, objectiveness, operation, stability, and integrity of statistical data”; and “the transparency and openness of consolidated data.”